

Company Report

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KELINGTON GROUP

(KGRB MK EQUITY, KELG.KL)

TECHNOLOGY

25 Aug 2025

Emerging national champion

BUY

(Maintained)

Rationale for report: Company Result

Price RM4.63
Fair Value RM6.00
52-week High/Low RM4.72/RM2.60

Key Changes

Fair value



EPS

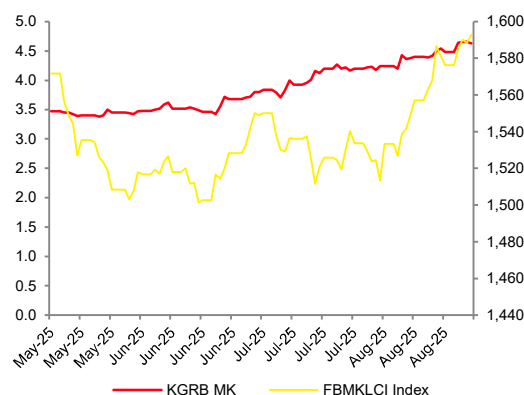


YE to December	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	1,272.2	1,463.8	2,030.0	2,336.3
Core net profit (RM mil)	127.8	146.5	195.4	224.1
FD Core EPS (sen)	14.7	16.8	22.4	25.7
FD Core EPS growth (%)	22.4	14.7	33.3	14.7
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	8.0	8.2	9.8	12.0
PE (x)	31.6	27.6	20.7	18.0
EV/EBITDA (x)	22.3	20.3	14.8	12.9
Div yield (%)	2.4	2.4	2.9	3.5
ROE (%)	30.8	28.7	27.7	24.3
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	871.9
Market Cap (RMmil)	4,036.9
Book Value (RM/Share)	0.65
P/BV (x)	7.1
ROE (%)	30.8
Net Gearing (%)	-
Major Shareholders	PALACE STAR (18.3%) Aberdeen Group Plc (14.7%) EPF (6.6%)
Free Float	71.9
Avg Daily Value (RMmil)	8.6

Price performance	3mth	6mth	12mth
Absolute (%)	35.4	35.0	36.2
Relative (%)	31.3	34.8	39.8



Investment Highlights

We retain BUY on Kelington at a higher TP of RM6.00/share (from RM4.70). This is on expectations of a fund flow rerating, as investors seek quality exposure in a sector with limited high conviction options. The group delivered a solid 1H25 core profit growth of +15% YoY and is poised for stronger execution in the 2H. Its order book of RM1.3bil reflects good earnings visibility, which we expect to grow further, given its expanding tender book of RM5.3bil (+35% QoQ). Strategic expansion into Japan and India, along with green hydrogen initiatives, lay the foundation for long term growth.

- **BUY at higher TP of RM6.00/share (from RM4.70).** We revise our target PE to 25x (from 21x) and roll forward our valuation base year, to capture a 12-month view. Our target PE is now pegged to 1sd above its 5-year average, which is underpinned by expectations of a fund flow driven rerating. The group's strong earnings visibility stands out amid external trade uncertainties and a scarcity of high-quality investment options within the sector.
- **On track for double digit growth, driven by stronger 2H.** 1H25 core profit increased 15% YoY to RM59mil. Premised on a stronger 2H, we deem this within expectations, forming 40% and 39% of ours and consensus estimates. This is due to less disruptions, leading to better project executions. Focusing on bottom line, Patami margins expanded +2.9pp YoY, given a better product mix of higher margin UHP projects.
- **Strong earnings visibility and future pipeline.** Its order book to revenue ratio stood at 1.1x. Outstanding order book stood at RM1.33bil (+3% YoY, -7% QoQ), as at June 2025. Albeit moderating slightly from the previous quarter, it does not include two sizeable recently secured projects from Europe and Malaysia, totaling RM250-350mil. As the next catalyst, the award for another large Europe project should be made known by early 4Q25. Tender book grew 35% QoQ to RM5.4bil.
- **Laying foundations for future.** Management is actively expanding into new geographies to tap into opportunities arising from the global push for semiconductor sovereignty. A new subsidiary has been incorporated in Japan, where major players like Rapidus, Micron, and TSMC have announced new investments. The group is also establishing Kelington India to pursue engineering works in the region. Separately, it is venturing into green hydrogen, aiming to provide engineering and operational expertise for production and manufacturing initiatives.

EXHIBIT 1: 2Q25 RESULTS SUMMARY

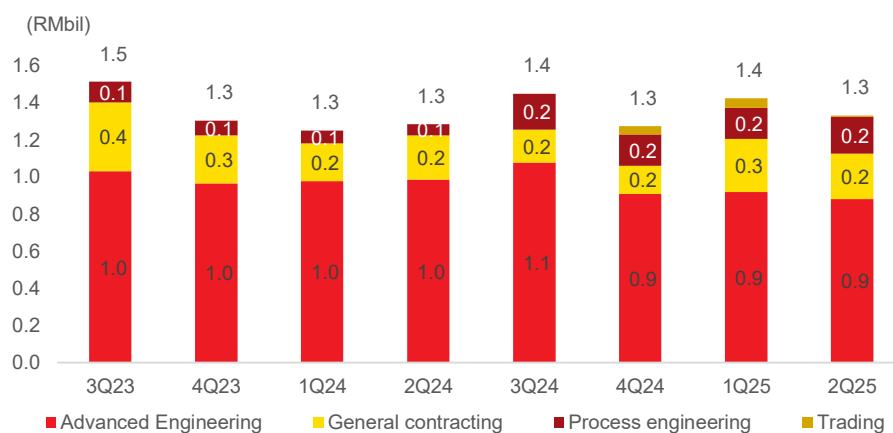
FYE Dec	2Q25	2Q24	% YoY	1Q25	% QoQ	1H25	1H24	% YoY
Revenue	282	321	-12.2	270	4.3	552	660	-16.4
EBITDA	45	40	12.8	37	23.0	84	78	7.7
Depreciation and amortisation	-4	-4	-8.9	-4	-2.0	-8	-7	-9.8
EBIT	41	36	13.1	33	25.5	76	70	7.4
Finance income	2	1	71.7	2	0.0	4	2	>100
Finance cost	-2	-2	8.8	-2	-0.6	-4	-5	9.5
EI	1	0	nm	2	-57.6	1	0	nm
Profit before tax	42	35	19.3	34	21.5	76	68	12.2
Tax	-8	-8	-10.3	-8	-11.7	-16	-15	-8.6
MI	0	-1	nm	0	-83.3	0	-1	nm
Net profit	33	27	21.9	27	24.3	60	53	13.1
Core net profit	32	27	20.5	25	29.7	59	51	15.0
EPS (sen)	4.5	4.0	13.0	3.7	21.6	8.2	7.8	5.4
DPS (sen)	2.5	2.0	25.0	2.5	0.0	5.0	4.0	25.0
Profitability ratios (%)								
Ebitda margin	16.0	12.4	3.5	13.6	2.4	15.1	11.8	3.4
Ebit margin	14.6	11.3	3.3	12.1	2.5	13.7	10.7	3.0
Pbt margin	14.7	10.8	3.9	12.7	2.1	13.7	10.2	3.5
Tax rate	20.3	22.0	-1.7	22.1	-1.8	21.1	21.8	-0.7
Net profit margin	11.5	8.4	3.1	9.2	2.2	10.7	7.8	2.9

Source: Kelington, AmInvestment Bank

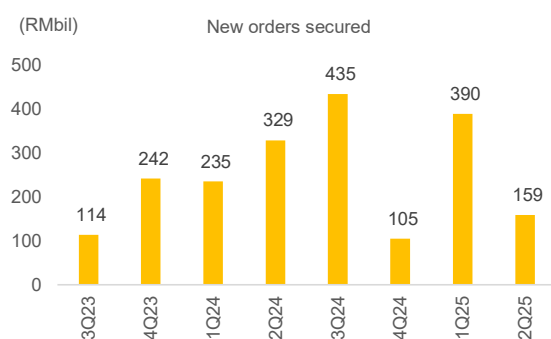
EXHIBIT 2: 2Q25 REVENUE BREAKDOWN

FYE Dec	2Q25	2Q24	% YoY	1Q25	% QoQ	1H25	1H24	% YoY
Revenue								
UHP/Advanced Engineering	185	222	-16.7	199	-7.2	385	428	-10.1
Process engineering	17	17	-4.6	9	81.7	26	39	-33.6
General contracting	53	50	7.0	26	>100	79	128	-38.5
Industrial gases	29	35	-17.9	34	-13.5	63	71	-12.2
Equipment and materials	4	15	-73.4	9	-56.1	13	31	-58.2
Geography								
Malaysia	109	124	-11.9	80	36.9	189	276	-31.4
China	58	101	-43.1	101	-43.1	159	205	-22.7
Singapore	100	83	20.6	76	31.3	176	153	14.7
Taiwan	7	5	35.7	4	59.2	11	8	32.4
Others	9	8	3.7	9	-5.6	18	18	-1.3
Orderbook (bil)	1.33	1.29	3.1	1.43	-7.0	1.33	1.29	3.1
Tenderbook (bil)	5.40	1.66	>100	4.00	35.0	5.40	1.66	>100

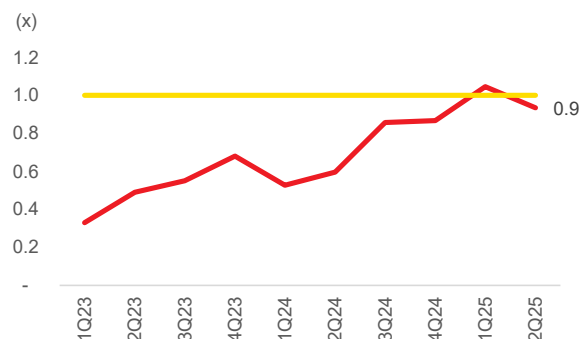
Source: Kelington, AmInvestment Bank

EXHIBIT 3: OUTSTANDING ORDER BOOK

Source: Kelington, AmInvestment Bank

EXHIBIT 4: NEW ORDERS SECURED TO PICK UP IN 2H25

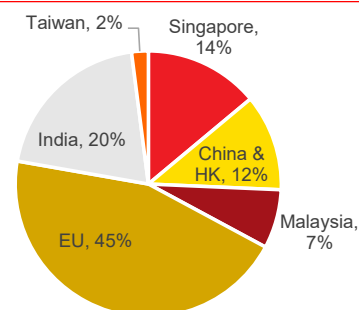
Source: Kelington, AmInvestment Bank

EXHIBIT 5: BOOK TO BILL RATIO TRENDING UP

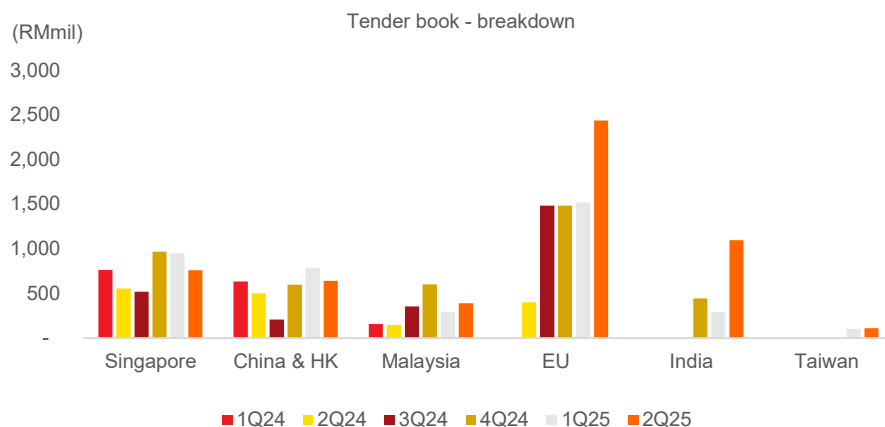
Source: Kelington, AmInvestment Bank

EXHIBIT 6: GROWING TENDER BOOK

Source: Kelington, AmInvestment Bank

EXHIBIT 7: GEOGRAPHICAL BREAKDOWN

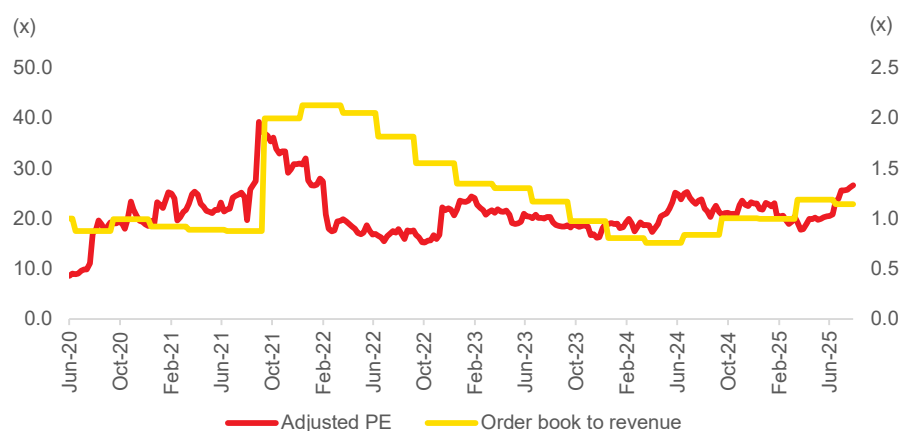
Source: Kelington, AmInvestment Bank

EXHIBIT 8: BROADENING PRESENCE INTO NEW GEOGRAPHIES

Source: Kelington, AmlInvestment Bank

EXHIBIT 9: 5-YEAR FORWARD PE

Source: Kelington, AmlInvestment Bank

EXHIBIT 10: RERATING DRIVEN BY IMPROVED EARNINGS VISIBILITY

Source: Kelington, AmlInvestment Bank

EXHIBIT 11: VALUATIONS

Target PE (x)	25x (from 21x)
Avg. CY26 and CY27 EPS	24.1sen
12-month target price	RM6.00 (from RM4.70)

Source: AmlInvestment Bank

Company profile

Kelington specialises in ultra-high purity (UHP) gas systems, which serves as “plumbing” for high tech industries like semiconductors, electronics and solar. These systems operate in mission critical environments, where even microscopic contaminations can ruin a batch of wafers.

The group was founded in 1999, by a team of engineers led by Ir. Gan Hung Keng, many whom had previously worked at Malaysia Oxygen Berhad (MOX), the country’s largest industrial gas supplier. This experience provided a solid technical foundation, particularly in the UHP gas handling segment, which is a niche but high barrier segment. The group initially served Malaysian fabs, before expanding into Singapore, China and Taiwan.

Investment thesis and catalysts

Benefiting from Semiconductor Sovereignty Push. Tender book tripled to RM5bil amid global chip independence efforts. Expansion into Europe, Hong Kong, and India positions the group to win major contracts, leveraging its track record and partnerships.

Strong Product Mix Driving Margins. Sustainable Patami margins are supported by high-margin UHP and industrial gas segments. UHP makes up 65% of the order book, while industrial gas revenue grew from 2% to 11% over five years.

Robust Cash Reserves Enable Strategic Moves. With RM304mil net cash and RM203mil from warrants, the group has flexibility. Dividend payout doubled to 50%, with potential for more or investment in CCUS, where it has CO₂ expertise.

Valuation methodology

We value Kelington based on a target PE of 25x and blended CY26/27 EPS. Our target PE is pegged to 1sd above the group’s 5-year average. This is underpinned by expectations of a fund flow driven rerating. The group’s strong earnings visibility stands out amid external trade uncertainties and a scarcity of high-quality investment options within the sector.

The group deserves a valuation premium over traditional construction peers due to its niche position as a high-tech provider of UHP systems, which is a critical enabler in semiconductor infrastructure. Unlike commoditised contractors, its engineering expertise and client qualification requirements create high barriers to entry, allowing it to command good margins and repeat orders. While it is not a pure play semiconductor company, its exposure to structural semiconductor growth, justifies a higher multiple, in our view.

Risk factors

Delays and execution risks. Delay in project award or delivery can impact revenue timing, resulting to downside in our earnings forecasts. Its expansion into new geographies also presents execution risks, if it is not able to deliver its projects on time, within budget or to specification.

Lumpy project awards. A large part of revenues is non-recurring in nature. If it is unable to secure replacement contracts in a timely manner, it may face periods of low revenue and profitability. This can occur, if existing customers do not expand their facilities and/or if the group fails to secure new customers.

EXHIBIT 12: FINANCIAL DATA

Income Statement (RMmil, YE 31 December)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	1,614.4	1,272.2	1,463.8	2,030.0	2,336.3
EBITDA	153.6	180.2	195.4	252.8	286.6
Depreciation/Amortisation	(11.0)	(14.7)	(15.1)	(16.6)	(18.9)
Operating income (EBIT)	142.6	165.5	180.2	236.2	267.7
Other income & associates	(0.3)	(3.6)	-	-	-
Net interest	(8.4)	(3.3)	2.9	8.0	12.4
Exceptional items	(0.3)	(3.6)	-	-	-
Pretax profit	133.9	158.6	183.2	244.2	280.2
Taxation	(27.9)	(32.0)	(36.6)	(48.8)	(56.0)
Minorities/pref dividends	(1.9)	(2.4)	-	-	-
Net profit	104.1	124.2	146.5	195.4	224.1
Core net profit	104.4	127.8	146.5	195.4	224.1
Balance Sheet (RMmil, YE 31 December)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	175.5	214.1	232.0	261.1	294.8
Intangible assets	7.2	6.8	6.8	6.8	6.8
Other long-term assets	1.3	2.3	2.3	2.3	2.3
Total non-current assets	184.1	223.2	241.1	270.2	303.9
Cash & equivalent	233.1	203.0	154.4	343.5	380.1
Stock	25.5	19.8	22.8	31.6	36.3
Trade debtors	432.9	341.4	392.8	544.7	626.9
Other current assets	195.8	362.8	362.8	362.8	362.8
Total current assets	887.3	927.0	932.7	1,282.6	1,406.2
Trade creditors	274.5	245.8	282.8	392.2	451.4
Short-term borrowings	123.3	104.9	53.7	28.7	16.4
Other current liabilities	266.5	234.9	234.9	234.9	234.9
Total current liabilities	664.4	585.6	571.4	655.8	702.7
Long-term borrowings	58.2	76.3	39.0	20.8	11.8
Other long-term liabilities	10.4	15.0	15.0	15.0	15.0
Total long-term liabilities	68.6	91.3	54.0	35.8	26.9
Shareholders' funds	332.6	473.3	548.3	861.2	980.5
Minority interests	5.8	0.1	0.1	0.1	0.1
BV/share (RM)	0.50	0.65	0.63	0.99	1.12
Cash Flow (RMmil, YE 31 December)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	133.9	158.6	183.2	244.2	280.2
Depreciation/Amortisation	11.0	14.7	15.1	16.6	18.9
Net change in working capital	30.1	33.0	12.2	35.7	93.1
Others	(0.5)	(37.6)	(69.2)	(143.9)	(189.3)
Cash flow from operations	174.6	168.7	141.4	152.6	202.8
Capital expenditure	(69.2)	(48.5)	(29.3)	(40.6)	(46.7)
Net investments & sale of fixed assets	1.1	-	-	-	-
Others	-	(24.0)	-	-	-
Cash flow from investing	(68.1)	(72.5)	(29.3)	(40.6)	(46.7)
Debt raised/(repaid)	(75.4)	(1.3)	(92.1)	(48.4)	(27.1)
Equity raised/(repaid)	-	83.8	-	203.0	-
Dividends paid	(19.3)	(58.2)	(71.5)	(85.5)	(104.9)
Others	(9.6)	(15.5)	2.9	8.0	12.4
Cash flow from financing	(104.3)	8.8	(160.7)	77.1	(119.5)
Net cash flow	2.1	105.0	(48.6)	189.2	36.6
Net cash/(debt) b/f	229.5	237.3	-	-	-
Net cash/(debt) c/f	237.4	357.6	(48.6)	189.2	36.6
Key Ratios (YE 31 December)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	26.2	(21.2)	15.1	38.7	15.1
EBITDA growth (%)	69.4	17.3	8.4	29.4	13.4
Pretax margin (%)	8.3	12.5	12.5	12.0	12.0
Net profit margin (%)	6.5	9.8	10.0	9.6	9.6
Interest cover (x)	16.9	50.6	nm	nm	nm
Effective tax rate (%)	20.8	20.2	20.0	20.0	20.0
Dividend payout (%)	18.5	46.8	48.8	43.7	46.8
Debtors turnover (days)	100	111	92	84	92
Stock turnover (days)	5	6	5	5	5
Creditors turnover (days)	61	75	66	61	66

Source: Company, AmlInvestment Bank Bhd estimates

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